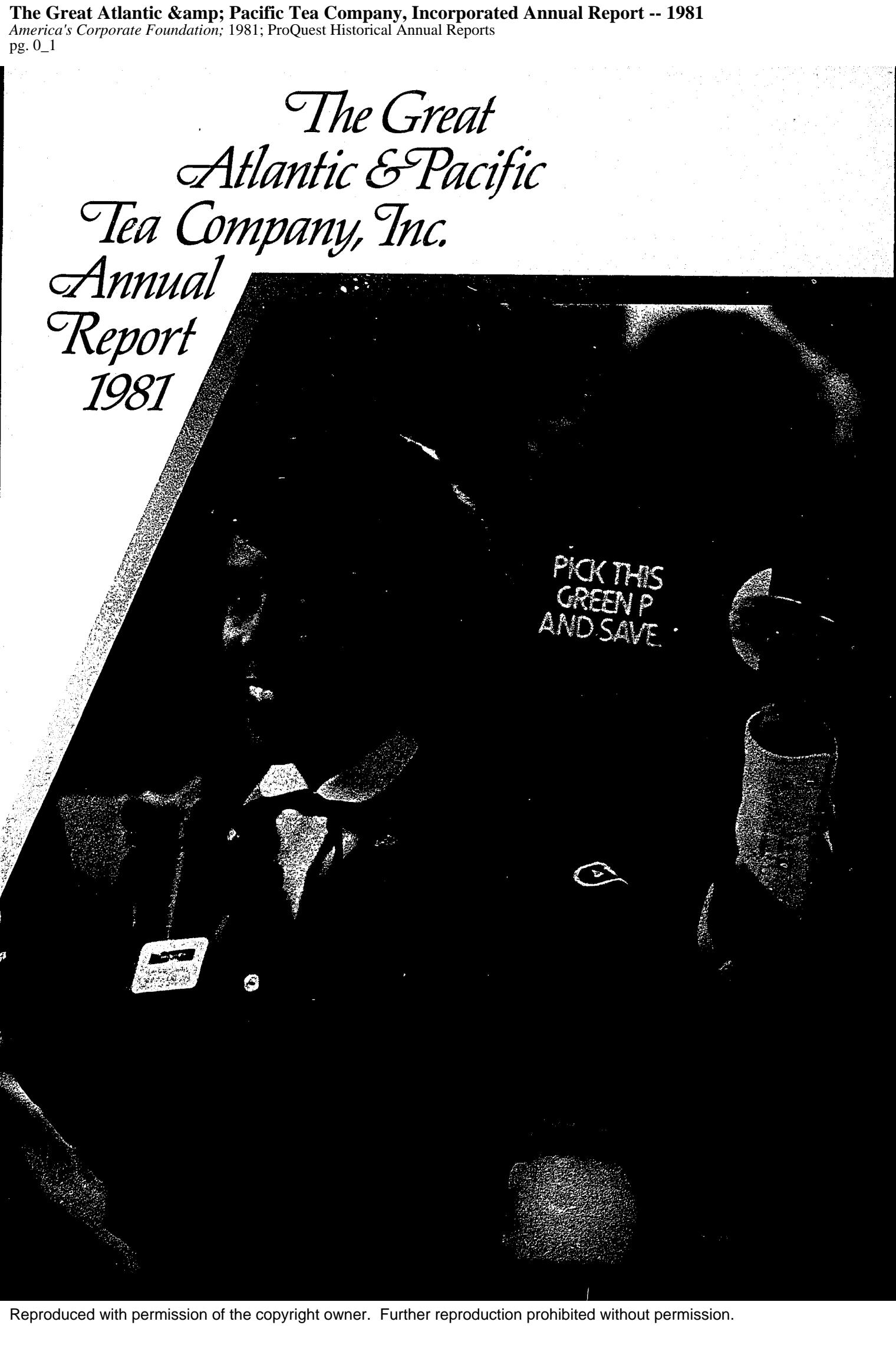


*The Great
Atlantic & Pacific
Tea Company, Inc.
Annual
Report
1981*



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Corporate Officers

James Wood Chairman of the Board, President and Chief Executive Officer	Vito A. Cardace Senior Vice President, Finance and Administration	Larry G. Zettie Senior Vice President, Grocery/General Merchandise	Arthur C. Melervay Secretary
James W. Rowe Vice Chairman of the Board, Chief Administrative Officer and Assistant to the Chief Executive Officer	Gerald L. Good Senior Vice President, Field Support	Randall A. Bostwick Vice President, President, Super Market Service Corporation	Merlin R. Miller Vice President, Labor and Control
Eckart C. Siess Vice Chairman of the Board— International Operations	James T. Gow, Jr. Senior Vice President, Supermarket Support Services	James B. Burmeister Vice President, Carolina Group	Robert M. Quinn Vice President, Financial Planning
Alan C. Goulding Senior Executive Vice President, Merchandising and Purchasing, Chief Operating Officer— South/Midwest	Louis Kertesz Senior Vice President, Perishable Merchandising and Purchasing	Timothy J. Courtney Controller	Gregory K. Raven Treasurer
John J. Miles Senior Executive Vice President, Chief Operating Officer— East Coast	Joseph H. McCarthy Senior Vice President, Metro/New York Group	Patrick R. Cronin Vice President, Personnel	Michael J. Rourke Vice President, Advertising and Marketing
Frederick C. Kennedy Executive Vice President, President, A&P Canada	H. Frentice Merritt Senior Vice President, Development	Herman J. Freytag Vice President, Central Group	Robert L. Spencer Vice President, Southern Group
Robert E. Bradford Senior Vice President, Human Resources, Communications and Public Affairs	J. Paul Stillwell Senior Vice President, Field Support	William W. Jackson Vice President, Southeastern Group	Burton J. Weinbaum Vice President, Northeast Group
	Ivan K. Szathmary Senior Vice President, Information and Administration Systems	H. Nelson Lewis Vice President, Industrial Relations	Harold N. Tolchinsky Assistant Secretary, Assistant General Counsel
	Robert G. Ulrich Senior Vice President, and General Counsel	James L. Madden Vice President, Mid-Atlantic Group	
		Thomas F. Mayer Vice President, Meat Merchandising	

Directors

James Wood (c) Chairman of the Board, President and Chief Executive Officer	Walter D. Dance (a) (c) Director Emeritus and Consultant, General Electric Company	Paul C. Nagel, Jr. (a) (c)	(a) Member of Audit Review Committee Paul C. Nagel, Jr., Chairman
Rosemarie Baumeister (b) Vice President, Tengelmann Waren- handelsgesellschaft West Germany	Christopher F. Edley (a) Executive Director, United Negro College Fund, Inc.	James W. Rowe Vice Chairman of the Board, Chief Administrative Officer and Assistant to the Chief Executive Officer	(b) Member of Comp- ensation Policy Committee Harold J. Berry, Chairman
Harold J. Berry (b) (c) Chairman, Investment Banking Committee Merrill Lynch, Pierce, Fenner & Smith, Inc.	Helga Haub (c)	Eckart C. Siess (c) Vice Chairman of the Board— International Operations	(c) Member of Executive and Finance Committee James Wood, Chairman
	Barbara Barnes Hauptfuehrer (a)	Fritz Teelen Senior Vice President	(d) Resigned May 3, 1982
	Sidney A. Kohl (a) (d) Chairman of the Board of Directors and Chief Executive Officer, Ridge Bancorporation and President and Chief Executive Officer, Sidney Kohl Company	Henry W. Van Baalen (b) Consultant, Tengelmann Group, West Germany	

Comparative Highlights

(Dollars in thousands except per share figures)

For the fiscal year	1981	1980	1979
Sales	\$6,226,755	\$6,989,529	\$6,684,179
Net (loss)	(101,633)	(43,049)	(3,807)
Net (loss) per share	(2.72)	(1.35)	(.15)
Additions to Property*	68,406	67,844	69,707
Number of stores at year end	1,055	1,543	1,542

*Includes leased equipment of \$11 million and \$2 million in fiscal 1980 and 1979, respectively.

Excludes real property leased under capital leases.

Contents

Turning Point '82	3
The Farm	5
Eight O'Clock Coffee	6
The Butcher Shop	9
Summary of Significant Accounting Policies	10
1981 Financial Review	11
Accountants' Report	20
Management's Report on Financial Statements	20
Statement of Consolidated Operations	21
Statement of Consolidated Stockholders' Equity	21
Consolidated Balance Sheet	22
Statement of Changes in Consolidated Financial Position	23
Management's Discussion and Analysis	24
Five-Year Summary of Selected Financial Data	25

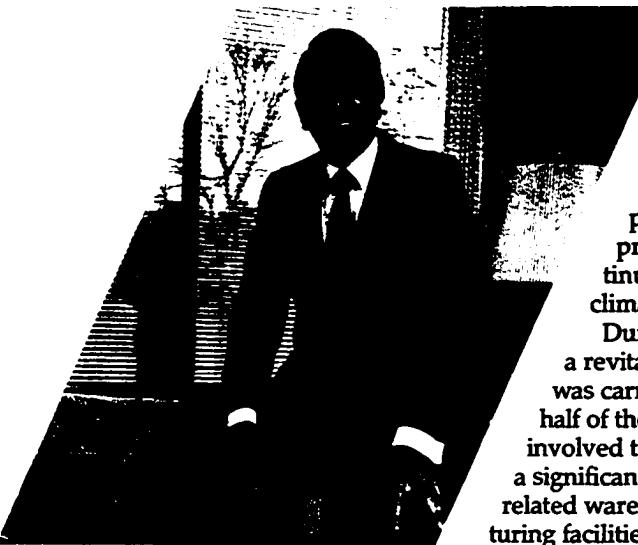
Executive Offices
Box 418
2 Paragon Drive
Montvale, New Jersey 07645
Telephone 201-573-9700

Transfer Agent and Registrar
Manufacturers Hanover
Trust Company
New York, New York

The Annual Meeting will be held on Tuesday, July 6, 1982, at 10:00 a.m., at the Westin Peachtree Plaza, 210 Peachtree Street, Atlanta, Georgia 30343. Stockholders are cordially invited to attend.

Copies of the Form 10-K submitted to the Securities and Exchange Commission will be provided to stockholders upon written request to the Secretary.

Common stock of the Company is traded on the New York Stock Exchange under the symbol "GAP", and has unlisted trading privileges on the Boston, Midwest, Philadelphia-Baltimore-Washington, Pittsburgh, Cincinnati and Detroit Stock Exchanges.



To Our Stockholders:

During 1981, we developed a carefully considered plan to make 1982 the turning point for A&P. Over the past ten years, we have seen a great Company, once the largest food retailer in the world, caught in a downward spiral of performance resulting in an extensive contraction of operations. The causes are not easily identified but they emanate from the 1950's, and include essentially six basic factors:

First, a store base in the majority of our trading areas that has been both physically small and poorly located. *Second*, store closings have resulted in a senior work force with much higher cost per man hour than competition. *Third*, a manufacturing orientation that has created an over emphasis on private label as opposed to branded products in our stores. *Fourth*, inadequate remodeling and new store development programs in markets with future growth and profitability. *Fifth*, a lack of consistency in staff development and training throughout the system. *Sixth*, a management information and control system that has lagged far behind industry standards.

In the past several years, A&P has had some success in improving on these problems, but they have essentially kept the Company at a competitive disadvantage. With the deteriorating economic situation of 1981, it became

clear by midyear that we could not resolve these structural problems over time. We had to take serious corrective measures in order to position the Company for profitability during a continuing difficult economic climate in 1982.

During 1981, we announced a revitalization program that was carried out during the last half of the fiscal year. The program involved the closing and/or sale of a significant number of stores and related warehousing and manufacturing facilities. It had a major effect on 1981 results, but has put the Company in a good position for profitability with on-going operations in the 1982 fiscal year.

On April 5, 1982, we announced an agreement in principle, subject to the approval of the court and other necessary legal proceedings, to a settlement of the pending litigation relating to the planned termination of the Company's overfunded pension plan, which was announced as part of the revitalization program. Under the terms of the settlement, the Company will increase benefits to the pension plan participants, including both retirees and present employees, at a cost of \$50,000,000. Subsequently, the plan will be terminated, resulting in an approximate \$200,000,000 reverting to the Company. The \$200,000,000 reversion to the Company will be effectively tax-free through utilization of the Company's tax loss carry forwards which are in excess of \$200,000,000.

We reported a loss before extraordinary credit of \$231,633,000 or \$6.19 per share, of which \$200,000,000 or \$5.34 per share is attributable to the provision for the revitalization program. The comparable loss for last year was \$43,049,000 or \$1.35 per share. The fiscal year 1980 loss included a charge of \$9,400,000 provided in the second quarter to cover the cost of an employee severance and early retirement program.

The fiscal 1981 results include an extraordinary credit of \$130,000,000,

Turning Point '82

or \$3.47 per share. The extraordinary credit represents the future economic benefit attributable to annuities for pension plan participants, which were purchased during the year in anticipation of the planned termination of the Company's existing pension plan. The remaining credit of approximately \$70,000,000, resulting from the termination and agreed upon settlement, will be recorded in the Company's 1982 fiscal year as soon as all necessary regulatory approvals are assured.

Total sales for on-going operations in the 52 week 1981 year were \$6,226,755,000, compared with \$6,989,529,000 in the 53 week 1980 year, with 488 fewer stores operating at year end.

The revitalization program will be cash generating and will allow us to reinforce A&P liquidity and capital resources. At year end, cash and short term investments aggregated \$55,638,000, while maintaining available unused short term lines of credit of approximately \$90,000,000.

In addition, the program has been planned to help us more rapidly overcome the six basic structural problems mentioned earlier in this message:

First, we have not only exited old, obsolete and unprofitable stores in continuing markets, we have also withdrawn totally from markets where A&P has sustained very heavy losses. With minor exceptions, we are left with a profitable core of operations that will receive concentrated management attention, to be improved and expanded over time. *Second*, while our average hourly cost per man hour is generally in excess of our unionized competition, the gap is smaller than it has been for many years. We are continuing to work diligently with the unions representing our employees to overcome the inequities that remain. *Third*, the source of our problems with private label items has nearly disappeared. The Company has, at a significant one-time cost, withdrawn almost entirely from manufacturing except for coffee, which continues to be an A&P strongpoint. This will free our buyers to get the best possible purchases, while steering the mix of goods offered in our stores more in line with

the customers' demands. *Fourth*, in 1980, a new store development program was begun covering stores to be remodeled and enlarged. During 1981 the Company acquired eleven Stop & Shop stores in Metro/New York. In 1982, we plan to continue our remodeling program and will open eight new A&P stores and two Family Marts. Future investments will be aimed at enhancing our position in those divisions that support a high return. *Fifth*, we have made a serious, on-going commitment to the training and development of people as a key to A&P's future success. The emphasis on improving our human resources will be initiated in every aspect of the organization and will remain at the top of my personal priority list. *Sixth*, in two short years, our management information and control systems have moved to a point approaching some of the best systems in the retail food industry. During this next year, we will approach completion of the program we began in mid-1980.

Throughout the revitalization program, action was taken in every department, group and division in the Company to reduce administrative overheads to be in line with the reduced size and sales base of the Company. That has been accomplished and reflected in our 1982 plans.

The economic outlook for the coming year is not good. We can certainly expect continued recession for the first half to three-quarters of the year, and must control costs at every turn.

Our marketing and advertising efforts will be directed toward attracting new customers and increasing sales beyond the anticipated five to six percent food inflation rate. Our primary appeal will be to offer our customers outstanding value with emphasis on the quality of A&P's perishable departments, and strong weekly features identified as, "Green Price Specials".

We have initiated a major communication program inside the Company known as "Turning Point '82". This effort is directed at all employees, but has the major objective of reaching store personnel to improve customer service and store operations. It encompasses our training and development

programs, and is symbolized in our new advertising which features real A&P employees talking directly to customers about why they should shop A&P.

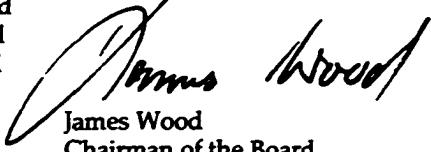
As we start 1982, A&P is a retailing Company. We are a smaller Company but we have better control of our business and the capability to produce a profit from our continuing stores in 26 eastern and southern states and Canada.

Our Canadian Company, with 114 stores, has had marked success over the past several years and continues to produce record sales and profits.

Our Family Mart subsidiary, with 22 stores, has now turned the corner and has become profitable, and we expect it to grow in coming years.

We would like to pay special tribute to Sidney A. Kohl who left the Board in May 1982. We are deeply grateful for the help, encouragement and council he provided the Company. James W. Rowe, Vice Chairman was elected a Director, replacing Mr. Kohl.

While there are no "sure things" in the intensely competitive retailing industry, I believe the program begun in 1981 will finally produce the turnaround we all so earnestly desire. For the first time, we have been able to initiate actions that will end the weaknesses which have plagued A&P for so many years. With the understanding of our shareholders, the hard work and dedication of our employees, the support of our suppliers and the loyalty of our customers, "Turning Point '82" will become a reality, and establish the foundation for a strong, profitable and long-lasting A&P.



James Wood

James Wood
Chairman of the Board,
President and Chief Executive Officer

May 4, 1982

The Store Managers and the store personnel they train and supervise, represent A&P to our customers.

These are the key people who form the foundation of customer attitude and loyalty that is vital to our success.

to enhance the shopping environment and provide year round convenience to our customers.

A&P

The thrust of A&P's marketing and merchandising strategy is to provide outstanding value to customers in the foods they buy. Our theme, "We Watch Our P's & Q's",



emphasizes price and quality. In-store signs highlight "Green Price Specials", the weekly sales features that provide savings to our customers and help increase store traffic.

A&P also stands for quality in the products we sell, particularly high quality meat and produce. Our goal is to further expand our strong customer franchise for A&P as the best store for fresh, quality perishables.

Produce, fresh fruits and vegetables are extremely important in meeting consumers needs for today's changing lifestyles. Customers want good price, but they also want quality, variety, service, convenience and a pleasant environment. "The Farm" at A&P creates this atmosphere with a variety of fresh produce from all parts of the world to satisfy specific needs... nutritional, ethnic and gourmet.

Attractive floral departments will be appearing in more A&P stores

The Farm





Eight O'Clock Coffee



Being more responsive to customer demands and preferences today, is the basic challenge of any

as other retail outlets served by the Compass Foods distribution subsidiary.

In 1981, A&P produced the P&Q brand as a replacement for black and white packaged generic products. The P&Q brand, offering

supermarket. In meeting this challenge, A&P is providing new specialty food departments, including gourmet cheese shops, service delicatessens, seafood departments and other specialty foods in our stores.

The Company has withdrawn almost entirely from manufacturing (except coffee). Therefore, today's A&P shopper can choose from the larger selection of national brand products complimented by A&P's private label brands.

A&P stores have had a long history of high quality private label products including 8 O'Clock bean coffee, as well as other quality coffees. The Company has retained its coffee roasting facilities which will continue to provide famous A&P coffees for our stores as well

consistent quality with generic product pricing, has been well received by customers.

In 1982, we will be introducing a new, modern packaging program and will be replacing many former Ann Page products with our primary private label, the A&P brand.



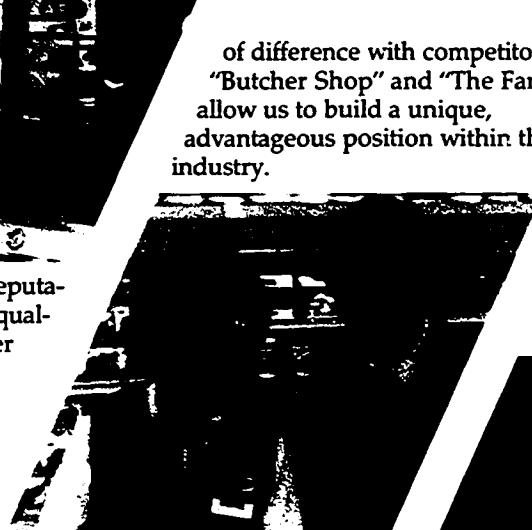


of difference with competitors. The "Butcher Shop" and "The Farm" allow us to build a unique, advantageous position within the industry.

A&P enjoys a heritage and reputation for maintaining superior quality and standards in its "Butcher Shop" meat departments. The "Butcher Shop" and "The Farm" will continue to be the focal point in our merchandising and advertising programs. These perishable departments are our greatest point



television commercials depicting A&P people "Doing What They Do Best".



Our merchandising programs address today's changing dietary and menu preferences by refining



our meat departments' offerings to include economy family packs and gourmet cut sections. Additional emphasis has also been placed on the poultry and seafood sections.

In 1982, the Company will continue its emphasis on the training and development of its most important single asset, the people of A&P. The ability to attract, develop and promote good people is a major priority for A&P in the coming year.

All advertising and communications are based on Company strengths; the people and products of A&P. The photos of the store employees used throughout this report are scenes from our new



The Butcher Shop



Summary of Significant Accounting Policies

Fiscal Year—The Company's fiscal year ends on the last Saturday in February. Fiscal 1981 ended February 27, 1982 and comprised 52 weeks, as did fiscal 1979 which ended February 23, 1980. Fiscal 1980 ended February 28, 1981 and comprised 53 weeks.

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant inter-company accounts and transactions have been eliminated.

Foreign Operations—Assets and liabilities of foreign subsidiaries have been translated at year-end rates except for inventories, net property and certain deferred items which have been translated at historical rates. Income and expense accounts, except cost of merchandise sold and depreciation and amortization, have been translated at average rates prevailing during the fiscal year. Foreign exchange losses in fiscal 1981 amounted to \$.2 million compared with a loss of \$.8 million in fiscal 1980 and a gain of \$.6 million in fiscal 1979.

Inventories—Inventories are valued at the lower of cost or market, with cost being determined on the following bases: inventories in stores—average cost under the retail method; other inventories, primarily in warehouses and manufacturing facilities—cost on a first-in, first-out basis. Raw materials and supplies, principally at manufacturing facilities, constituted approximately 5% and 7% of total inventories in fiscal 1981 and 1980 respectively.

Properties—The Company leases a substantial portion of its facilities and a majority of store leases are considered to be operating leases. The assets and obligations for stores leased under capital leases which are closed prior to lease expiration are eliminated from the accounts as of the date of the decision to close and an accrual is provided for anticipated costs to be incurred upon the ultimate disposition of the facility.

Owned land and buildings generally consist of stores, manufacturing facilities and warehouses. Equipment, store fixtures, and leasehold

improvements generally are owned, although beginning in 1977 the Company has entered into equipment leasing programs for store equipment and trucks, most of which are accounted for as capital leases. Major additions and betterments are capitalized, whereas maintenance and repairs are charged to operations as incurred. When properties are replaced, retired, or otherwise disposed of, the cost of such properties and the accumulated depreciation are eliminated from the accounts in the year of sale or retirement. The gain or loss on the disposition of assets is recognized currently. Net losses on the disposition of closed facilities are charged to reserves provided therefor. (See Closed Facilities accounting policy below).

Depreciation and Amortization—For financial reporting purposes, depreciation and amortization are provided, generally on the straight line method, over the estimated useful lives of the respective assets. Approximate annual depreciation rates for properties are as follows: buildings—2% to 5%; store and other equipment, except automotive—8½% to 10%; store fixtures and leasehold improvements—10% and automotive equipment—14½% to 33½%. Equipment and real property leased under capital leases are amortized over the lives of the respective leases.

Pre-opening Costs—Costs incurred in the opening of a new store are expensed in the quarter in which the store is opened.

Closed Facilities—The Company provides for the estimated loss on the disposition of leased or owned facilities in the period in which the decision to close the facility is made. For significant closing programs, provisions are established for estimated closing costs including remaining store lease obligations, loss on disposition of store equipment, employee severance payments and other employee benefits, operating losses of facilities to be closed from the date of the decision to close and other related costs. The sales for those stores included in such significant closing programs

are excluded from the statement of consolidated operations from the effective dates of inclusion in the programs.

Income Taxes—The Company's policy is to provide deferred taxes in recognition of timing differences between income for financial reporting and income tax purposes. However, due to the Company's U.S. tax loss carryforward position, no deferred taxes have been provided on the differences between financial and taxable income. Approximately \$7 million of deferred income taxes have not been provided on undistributed earnings of foreign subsidiaries considered to be permanently invested. Approximately \$20.8 million of retained earnings of the Company's Canadian subsidiaries can be remitted without any additional tax provision. Investment tax credits, previously utilized for tax purposes, have been deferred and are amortized over the estimated useful lives of the related assets. The sale of tax benefits under the Safe Harbor clause of the Economic Recovery Tax Act of 1981 has been recorded as income in the current year.

Retirement Plans—Annual costs of the Companies' pension plans, which are provided for currently, consist of normal cost, amortization over 40 years of unfunded prior service cost as of January 1, 1976, amortization over 30 years of changes in the unfunded actuarial liability resulting from plan amendments and changes in actuarial assumptions and amortization over 15 years of annual actuarial gains or losses. Annual costs under union/management administered plans are expensed as provided for in the respective collective bargaining agreements. (See Retirement Plan footnote.)

Compensated Absences—In 1981, in accordance with Financial Accounting Standards Board Statement No. 43, "Accounting for Compensated Absences," the Company accrued for vested and non-vested vacation pay. Previously, the Company accrued for the cost of vested vacation pay and recognized the cost of non-vested vacation pay when paid.

Retained earnings as of February 24, 1979 was charged \$3.5 million representing the cumulative effect of the change on results of operations for fiscal years prior to 1979. The accounting change had no effect on net income previously reported for 1980 and 1979. Liabilities for

compensated absences of \$39.5 million and \$44.8 million for 1981 and 1980, respectively, are included in the Balance Sheet caption Accrued salaries, wages and benefits. **Earnings Per Share**—Net income (loss) per share is based on the weighted average number of com-

mon shares outstanding during the respective fiscal years. Stock options outstanding (common stock equivalents) had no material effect and, therefore, were excluded from the computation of net income (loss) per share.

1981 Financial Review

Quarterly Information (unaudited)—The following table summarizes the Company's results of operations by

quarter for fiscal years 1981 and 1980. Management's Discussion and Analysis, page 24, discusses these

results and significant changes reflected therein.

	Number of Stores at End of Period	Quarterly Operating Results				Per Share Amounts			
		Sales	Gross Margin	(Loss) before Extra- ordinary Item	Net (Loss)	(Loss) before Extra- ordinary Item	Net (Loss)	Market Price High	Market Price Low
Fiscal 1980									
		(millions)		(thousands)					
First Quarter	1,524	\$1,645	\$ 347	\$ (14,936)	\$ (14,936)	\$ (.60)	\$ (.60)	\$ 7 3/4	\$ 4 1/2
Second Quarter	1,530	1,710	364	(15,961)	(15,961)(a)	.59	.59	6 1/8	4 1/2
Third Quarter	1,544	1,744	373	(7,963)	(7,963)	.21	.21	7 1/4	5
Fourth Quarter(b)	1,543	1,891	393	(4,189)	(4,189)	.11	.11	6 1/2	4 1/2
		\$6,990	\$1,477	\$ (43,049)	\$ (43,049)	\$ (1.35)	\$ (1.35)		
Fiscal 1981									
First Quarter	1,536	\$1,702	\$ 366	\$ (10,377)	\$ (10,377)	\$ (.28)	\$ (.28)	\$ 6 1/2	\$ 5 1/4
Second Quarter	1,500	1,724	355	(11,388)	(11,388)	.30	.30	5 3/4	3 7/8
Third Quarter	1,449	1,667	366	(6,920)	(6,920)	.19	.19	4 1/8	3 1/2
Fourth Quarter	1,055	1,134	237	(202,948)(c)	(72,948)(d)	(5.42)	(1.95)	5	3 1/2
		\$6,227	\$1,324	\$ (231,633)	\$ (101,633)	\$ (6.19)	\$ (2.72)		

(a) Net income for the second quarter of fiscal 1980 includes a charge for \$9.4 million to cover estimated costs of an employee severance and early retirement program instituted to balance the store labor force.

(b) Fourth quarter results for fiscal 1980 include 14 weeks as compared with 13 weeks in all other quarters.

(c) Results for the fourth quarter of fiscal 1981 include a provision of \$200 million, representing the anticipated cost of the revitalization program.

(d) Net income for the fourth quarter of fiscal 1981 includes an extraordinary credit of \$130 million relating to the decision to terminate the Company's existing pension plan.

1981 Financial Review (continued)

Closing Facilities—On March 23, 1979, the Board of Directors approved a Restructuring Program which included the closing of certain unprofitable and marginal stores and related support facilities. A \$51.7 million provision for the estimated cost of the Restructuring Program was included in the fiscal 1978 financial results.

During 1981, the Board of Directors approved the development and implementation of a comprehensive revitalization program involving the sale or disposition of a significant number of unprofitable and marginal stores, certain manufacturing plants, and related support facilities. In the fourth quarter, the Company provided \$200 million for the current and estimated future expenses related to this program. The provision, which cannot be made with certainty because it is dependent on future

events, includes losses from operations from the decision date to date of closings, estimated loss on the disposal of equipment and leases, employee severance payments, and other related costs.

Activity related to reserves provided for closing of facilities including prior programs and the Company's continuing program of evaluating all aspects of its operations is also shown below.

(Dollars in millions)	Current Liabilities(a)	Property Valuation	Non-Current Liabilities(a)	Total
Balance February 24, 1979	\$ 35.8	\$ 8.3	\$ 21.2	\$ 65.3
Charges—net	(32.0)	(7.5)	(2.7)	(42.2)
Transfer to Current Liabilities	3.8	—	(3.8)	—
Balance February 23, 1980	7.6	.8	14.7	23.1
Charges—net	(4.2)	(.3)	(3.2)	(7.7)
Transfer to Current Liabilities	.8	—	(.8)	—
Balance February 28, 1981	4.2	.5	10.7	15.4
Charges to prior closing reserves—net	(4.2)	(.5)	(.4)	(5.1)
Transfer to Current Liabilities	3.5	—	(3.5)	—
Anticipated Cost of Revitalization Program	93.4	—	106.6	200.0
Transfers and Charges—Revitalization Program—net	(93.9)	—	(31.3)	(125.2)
Balance February 27, 1982 (a)	\$ 3.0	\$ —	\$ 82.1	\$ 85.1

(a) Financial statement captions include other accruals in addition to closing reserves. Included therein are fixed assets which have been transferred to current and non-current liabilities for balance sheet presentation in 1981.

Stock Options—The Company has a stock option plan, approved by the stockholders in June 1975, under which officers and key employees may be granted qualified and non-qualified options to purchase not more than 1,000,000 shares of Common Stock (increased to 1,500,000 in 1981) at not less than the fair market value at grant dates. Outstanding qualified options were converted to nonqualified options by operation of law on May 1, 1981,

and the plan was amended on January 18, 1982, to provide for granting incentive stock options under the Economic Recovery Tax Act of 1981. At February 27, 1982, there were 650,400 shares available for future option grants and 300,400 were available at February 28, 1981. Of the non-qualified stock options outstanding at February 27, 1982, including converted qualified options, 300,000 shares were exercisable at the date of grant and

548,000 at cumulative 25% increments after each of the first through fourth anniversaries of the grants. No incentive stock options were granted as of February 27, 1982. Proceeds from the exercise of options are credited to common stock for the aggregate par value of shares issued and the excess is credited to capital surplus. A summary of option transactions is shown in the table below.

	Shares Qualified	Non-Qualified	Per Share	Option Price	Total
Outstanding, February 23, 1980	138,000	508,000	\$ 5.88 to \$12.56	\$ 6,438,575	
Fiscal 1980:					
Granted	—	230,000	4.94 to 6.19	1,158,700	
Exercised	—	(200)	5.88	(1,176)	
Cancelled or expired	(119,500)	(58,300)	5.88 to 12.56	(1,789,629)	
Outstanding, February 28, 1981	18,500	679,500	\$ 4.94 to \$12.44	\$ 5,806,470	
Fiscal 1981:					
Converted to non-qualified options	(18,500)	18,500	8.19 to 11.69	—	
Granted	—	326,000	5.63 to 5.75	1,872,700	
Cancelled or expired	—	(176,000)	5.88 to 11.75	(1,697,085)	
Outstanding, February 27, 1982	—	848,000	\$ 4.94 to \$12.44	\$ 5,982,085	
Shares becoming exercisable in:					
Fiscal 1980	4,625	275,375	\$ 4.94 to \$12.44	\$ 1,641,150	
Fiscal 1981	—	28,750	\$ 4.94 to \$12.44	\$ 240,313	

Shares exercisable: 503,375 at February 27, 1982 and 646,875 at February 28, 1981.

Litigation—In the 1974 Annual Report, the Company reported on an antitrust judgment entered in favor of a Mr. Bray and five other cattle producers or feeders in the amount of \$35.8 million plus interest. The Company settled this action in 1975 (for payments ending in 1980 having a present value of about \$7 million, which was charged to operations in fiscal 1975) and the judgment was vacated and the action dismissed.

During 1975 and 1976, nine similar antitrust suits, alleging violations of sections of the Sherman Act were filed in five states, and all of these were consolidated for pretrial purposes in the Dallas Federal Court. One of these actions was purportedly brought on behalf of a class consisting of all persons who are engaged in the business of raising fat cattle who have not otherwise filed claims and who sold more than 100 head of cattle per year. Each of these suits names the Company and other retail food chains as defendants and asks damages and other relief which may include an injunction. While most of these plaintiffs have not specified the amounts of damages they are claiming, their aggregate claims are substantial. In the actions in which money damages are specified or estimated, the plaintiffs allege damages exceeding \$270 million.

On December 27, 1977, the District Judge hearing these actions entered a judgment dismissing all of them on the ground that plaintiffs had not sold directly to the retail food chain defendants, following *Illinois Brick Co. v. the State of Illinois*, 431 US 720 (1977). In all but

one of such actions, the plaintiffs appealed the judge's ruling and succeeded in having his dismissal ruling reversed. During 1977, seven additional antitrust suits alleging similar violations of the Sherman Act and seeking unspecified treble damages were filed in Texas and Utah. In certain of these new suits, meat packers to whom plaintiffs may have sold some of their cattle, are included as alleged co-conspirator defendants with the food chains. All these actions have been transferred to the Dallas Federal Court for pretrial purposes. One additional cattleman's action was filed in May, 1981 in Lubbock Federal Court, and a similar action has also been filed in California Superior Court but has been dismissed upon motion of the defendants and is presently on appeal.

In the above private actions, all of which are in the preliminary pretrial stages, money damages awarded to plaintiffs, if any, would automatically be trebled, and such a judgment would also include reasonable plaintiffs' attorneys' fees.

On October 30, 1981, as a result of the Company's announced intention to terminate its existing retirement plan ("Plan") and substitute a new plan therefor, suit was brought in the Newark, New Jersey federal court by a former executive, on behalf of himself and on behalf of a class of Plan participants, against the Company, its directors, its principal shareholder and others. The complaint alleged that the proposed recapture by the Company of approximately \$200 million in surplus Plan assets was improper under applicable law and sought both to prevent distribution of the assets to

the Company and to require distribution to the Plan participants. An agreement in principle to settle such suit was reached in April, 1982, pursuant to which, Plan benefits to participants will be increased at a cost of \$50 million. The settlement is subject to the approval of the Court and other necessary legal proceedings.

The Company denies all allegations of wrong-doing in the above-mentioned actions. No provision for possible liability has been made in the accompanying financial statements.

In December, 1981, as the result of a charge filed on October 18, 1974, the Equal Employment Opportunity Commission ("Commission") filed suit in Philadelphia federal court alleging that the Company, several international unions and certain of their locals have violated the Civil Rights Act of 1964, as amended, by engaging in patterns and practices of employment discrimination. In such suit the Commission seeks to enjoin the defendants from the alleged discrimination in hiring, promotion and other employment practices and require remedial measures, detailed implemental procedures and payments to alleged victims of discrimination.

The Company is also involved in various other claims, administrative agency proceedings and other lawsuits arising out of the normal conduct of its business.

Although the ultimate outcome of the legal proceedings cannot be predicted, the Company's present opinion is that any resulting liability will not have a material effect upon the Company's financial position.

Retirement Plans—The Company provides retirement benefits for substantially all non-union and some union employees under the Company Retirement Plans. Most other full-time and certain part-time union employees are covered by industry plans administered jointly by management and union representatives. The cost of all retirement plans amounted to \$25.8, \$37.2 and \$42.5 million in fiscal 1981, 1980 and 1979, respectively.

A comparison of accumulated plan benefits and plan net assets for the Company's plans is as follows:

	December 31,	
(Dollars in thousands)	1981	1980
Actuarial present value of accumulated plan benefits:		
Vested	\$ —	\$ 178,906
Non-Vested	\$ 4,400	\$ 5,864
	\$ 4,400	\$184,770
Net assets available for benefits	\$259,866	\$353,543

The decrease in net assets available for benefits and the elimination of the vested actuarial present value of accumulated plan benefits results

from the purchase of annuities from an insurance company in anticipation of termination of the Company's plan.

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 10.0 percent and 9.0 percent in fiscal 1981 and 1980, respectively. The assumed rate of return used was that published by the Pension Benefit Guaranty Corporation, an agency of the U.S. Government, for the applicable valuation date.

During 1981, the Company announced as part of a comprehensive revitalization program, that it intended to terminate the Company Employees' Retirement Plan and to establish a new, more flexible and attractive plan. The termination would enable the Company to utilize a surplus that has developed in the plan as a result of overfunding.

On October 30, 1981, a former executive of the Company filed a class action suit to prevent distribution to the Company of the surplus. (See Litigation and Subsequent Event footnotes.)

An extraordinary credit of \$130 million has been recorded in the

current year which represents the present value of the future economic benefit attributable to the purchase of annuities for pension plan participants in anticipation of the termination of the Plan. A remaining credit of approximately \$70 million resulting from the termination and agreed upon settlement will be recorded in the Company's next fiscal year, after all necessary regulatory approvals are assured, at which time the \$200 million will be classified as a current asset.

The Company's Canadian pension plans are not required to report to U.S. governmental agencies pursuant to ERISA and do not otherwise determine the actuarial value of accumulated benefits or net assets available for benefits as calculated and disclosed above. For those plans, the actuarially computed value of vested benefits as of December 31, 1981 and 1980 was exceeded by the total of those plans' assets and balance sheet accruals.

The Company could, under certain circumstances, be liable for substantial unfunded vested benefits or other costs of jointly administered union/management plans.

Operations in Geographic Areas—Sales and revenues in the table below

reflect sales to unaffiliated customers in the United States and foreign

countries (principally Canada).

(Dollars in thousands)	Fiscal 1981	Fiscal 1980	Fiscal 1979
Sales			
Foreign	\$ 668,371	\$ 579,406	\$ 465,385
Domestic	5,558,384	6,410,123	6,218,794
Total	\$ 6,226,755	\$ 6,989,529	\$ 6,684,179
Income (Loss) from Operations			
Foreign	\$ 15,590	\$ 13,629	\$ 10,151
Domestic	(11,057)	(25,661)	16,988
Total	\$ 4,533	\$ (12,032)	\$ 27,139
Assets			
Foreign	\$ 117,708	\$ 112,131	\$ 97,223
Domestic	1,023,971	1,196,852	1,133,299
Total	\$1,141,679	\$1,308,983	\$1,230,522

Lease Obligations—The Company operates primarily in leased facilities as it believes that its capital can be invested more productively in inventories and store equipment. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases, and certain of the store leases provide for increases in rentals when sales at the stores exceed specified levels. In addition, the Company leases some store equipment and trucks because of financial and tax considerations.

The Company accounts for leases in accordance with Statement No. 13 of the Financial Accounting Standards Board. Accordingly, the February 27, 1982 balance sheet includes \$107,489,000, net of accumulated amortization of \$61,766,000, for real property leased under capital leases and \$27,234,000, net of accumulated amortization of \$18,728,000, for equipment leased under capital leases. The February

28, 1981 balance sheet includes \$146,850,000, net of accumulated amortization of \$77,105,000, for real property leased under capital leases and \$34,014,000, net of accumulated amortization of \$13,743,000, for equipment leased under capital leases. The capitalized value of equipment leased under capital leases is included with owned equipment in the accompanying balance sheet.

Rent expense for operating leases

Minimum Annual Rentals

(Dollars in thousands)	Fiscal	Capital Leases		Operating Leases
		Equipment	Real Property	
1982		\$ 8,062	\$ 20,511	\$ 48,412
1983		8,062	20,173	43,835
1984		8,058	19,847	40,212
1985		6,633	19,475	36,475
1986		3,478	19,063	31,690
1987 and thereafter		4,406	183,273	252,494
		38,699	282,342	\$453,118
	Less executory costs	—	(13,408)	
	Net minimum rentals	38,699	268,934	
	Less interest portion	(8,396)	(134,100)	
	Present value of net minimum rentals	\$30,303	\$134,834	

Indebtedness—Under restrictive covenants contained in the Note Agreements relating to the Company's 9 1/2% Senior Notes issued in September 1977, the Company is presently prohibited from declaring or paying dividends (other than stock dividends) on its common stock. As of February 27, 1982, the Company would have had to have additional Consolidated Net Earnings (as defined) in excess of \$186.4 million in order to declare any dividends on its outstanding common stock, in which event, the payment of dividends would be limited to 75% of such excess. The Company is also required to maintain Consolidated Working Capital (as defined) of not less than \$175 million. At February 27, 1982, Consolidated Working Capital (as defined) was \$188.6 million. Such Note Agreements also place limita-

tions on the incurrence of additional indebtedness and lease commitments.

Maturities of long-term debt during each of the next five fiscal years are as follows:

1982	\$ 1,817,000
1983	11,859,000
1984	11,849,000
1985	11,553,000
1986	11,563,000

The Company has approximately

aggregated \$68,697,000, \$70,642,000 and \$71,760,000 in fiscal 1981, 1980 and 1979, respectively, including \$4,046,000, \$4,106,000 and \$4,237,000 in contingent rentals. The minimum annual rentals for leases in effect at February 27, 1982 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities provided for in the Company's revitalization program and other closing programs.

(Dollars in thousands)	February 27, 1982	February 28, 1981	February 23, 1980
9 1/2% Senior Notes, due in 10 annual installments of \$10,000 commencing October 1, 1983	\$100,000	\$100,000	\$100,000
9 7/8% Mortgage Notes, due in monthly installments of \$83 through September 29, 1997	14,667	15,667	16,667
Other notes, interest rates of 7% to 9 1/4%, due 1983 to 2002	13,749	14,365	14,014
	\$128,416	\$130,032	\$130,681

1981 Financial Review (continued)

Income Taxes—The provision for income taxes consists of the following:

(Dollars in thousands)	Fiscal 1981	Fiscal 1980	Fiscal 1979
Current:			
Canadian	\$6,111	\$4,657	\$3,206
State and local	543	262	1,136
Amortization of investment tax credits	(143)	(412)	(792)
	6,511	4,507	3,550
Deferred—Canadian	489	2,493	1,115
	\$7,000	\$7,000	\$4,665

The anticipated cost of the closing programs is deductible for income tax purposes only as costs actually are incurred. The realization of the entire potential tax benefit of such costs is not considered assured beyond a reasonable doubt because of the Company's existing tax loss carryforward.

The deferred Canadian provisions result from the excess of depreciation deductions of a Canadian subsidiary for tax purposes over amounts recorded for financial statement purposes. Fiscal 1981, 1980, and 1979 also include a provision for tax on current undistributed earnings of Canadian subsidiaries.

At February 27, 1982, the Com-

pany had a U.S. operating loss carryforward, for financial statement purposes, of approximately \$331 million which arose principally from provisions for closing of facilities made in fiscal 1974, 1978, and 1981.

For tax purposes, the Company's operating loss carryforward as of February 27, 1982 is approximately \$219 million which expires starting in fiscal 1990 through fiscal 1996. The principal difference between the carryforward for financial statement and tax purposes is due to timing differences, particularly costs relating to closed facilities and 1981 extraordinary credit. In addition, the Company has unused investment tax credits, of approximately \$37 million. These unused credits, which

have not been recognized for financial purposes, will expire in fiscal 1982—\$1 million and fiscal 1988—1996—\$36 million.

During the current year, the Company entered into an agreement, the substance of which was solely to sell the tax benefits—investment tax credits and accelerated depreciation—associated with \$11.9 million of certain machinery and equipment placed in service after January 1, 1981, under the Safe Harbor Clause of the Economic Recovery Tax Act of 1981. An amount proportionate to the benefits derived from continuing operations has been recognized as income in the consolidated statement of operations.

The difference between the Company's effective tax rate and the U.S. and Canadian statutory rate is attributable to the fact that no U.S. tax provision was required due to the U.S. operating losses, a lower statutory rate for a Canadian non-resident subsidiary, the Company's policy of amortizing investment tax credits, the effective rates of state and local income taxes and unrealized foreign exchange transaction gains and losses.

Related Party Transactions—In addition to his normal compensation arrangement entered into directly with the Company, the Company's Chief Executive Officer is a party to an agreement with the Company's major stockholder (Tengelmann), whereby Tengelmann has agreed to make certain payments directly to the officer based upon the Closing Price (as defined under the agreement) of the Company's common stock. Under the terms of the agreement, Tengelmann will pay an amount equal to the excess of the Closing Price of the stock at April

30, 1990 (measurement date) over \$4.00 per share on an aggregate of 1,794,593 shares. All rights of the officer under the agreement vest on May 1, 1985 and at the option of the officer, the measurement date can be accelerated to May 1, 1985 or any date thereafter. At anytime on or after May 1, 1985, the officer may request payment in part or whole based upon the Closing Price of the stock on the measurement date. The Company has considered the applicability of existing accounting literature, including Interpretation No. 1 to APB Opinion No. 25, "Stock

Plans Established by a Principal Stockholder," in relation to this transaction and believes that under the particular facts and circumstances, it would be misleading for the Company to recognize compensation expense from this transaction.

On September 11, 1981, the Company entered into a sale/leaseback agreement with the Employees' Retirement Plan covering certain Company owned retail facilities for a total price of \$19.9 million. The assets are being leased back to the Company at current market rentals.

Capital stock—On June 27, 1980 the Stockholders approved an amendment to the Certificate of Incorporation increasing the authorized common stock to 80,000,000 shares from 40,000,000 shares.

On August 6, 1980 the Company completed a rights offering in which all shares of common stock which had been offered were fully subscribed for. This resulted in a capital infusion of \$56,250,000 which was

used in the Company's capital investment program and resulted in the issuance of 12,500,000 additional outstanding shares. TN Delaware Incorporated ("TN"), the Company's largest stockholder at that time, participated in the offering. With the additional shares acquired under the offering, as well as with other shares previously purchased, TN owned approximately 48% of the Company's outstanding common stock at the expiration of the offering period.

Subsequent Event—On April 5, 1982, the Company announced that it had agreed, in principle, subject to the approval of the court and to other necessary legal proceedings, to a settlement of the October 30, 1981 litigation whereby a former executive of the Company filed a class action suit to prevent distribution to the Company of the surplus

that has developed in the Company's employee retirement plan as a result of overfunding. Under the terms of the settlement, the Company will increase benefits to the plan participants, including both retirees and present employees, at a cost of \$50 million, thereby allowing the termination of the plan resulting in approximately \$200 million reverting

On December 10, 1980, TN was dissolved as a corporate entity and all of the shares of the Company's common stock owned by it were transferred to its sole stockholder, Tengelmann Warenhandelsgesellschaft ("Tengelmann"). As of that date, Tengelmann owned 50% of the stock of the Company. Tengelmann subsequently increased its percentage ownership in the Company's common stock to 50.7% as of February 27, 1982.

to the Company, of which \$130 million was recorded as an extraordinary credit in fiscal 1981. Through utilization of the Company's tax-loss carryforwards, the reversion to the Company will be effectively tax-free in accordance with current tax regulations. (See Retirement Plan and Litigation footnotes.)

The Effects of Changing Prices (unaudited)

Basis of preparation—The supplementary financial data presented in the tables below disclose estimated effects of inflation on certain historical financial data as required by Statement No. 33 of the Financial Accounting Standards Board (FASB No. 33), Financial Reporting and Changing Prices. The Company's primary financial statements are presented on an historical cost basis, that is, on a basis of the prices in effect when the transactions occurred.

The data which follow attempt to adjust the historical amounts for the effects of inflation. The required disclosures are experimental in nature and two separate approaches to presenting the data are mandated, as follows:

The *Constant Dollar* basis presents historical cost information adjusted for changes in the general purchasing power of the dollar. The Consumer Price Index for All Urban Consumers (CPI-U), prepared by the U.S. Department of Labor, is used to measure the effects of general inflation. These constant dollar basis disclosures do not purport to represent appraisal values, replacement cost or any other measure of current values.

The *Current Cost* basis reflects historical cost information adjusted to show the estimated current costs of inventory and property, plant and equipment which have generally increased over time at a rate different from that of the Consumer Price Index.

Because of the rapid turnover of inventories, the carrying value of inventories is assumed to approximate current cost; therefore, cost of merchandise sold reflects approximate current cost at time of sale.

The current cost calculations for acquiring the same service potential as the Company's owned assets involve a number of judgments as well as use of estimating techniques employed to limit the cost of accumulating the data. The data reported should not be thought of as precise measurements of the assets and expenses involved, but instead approximations of the price changes that have occurred in the Company's operating environment.

The current cost of stores operating under capital leases and store equipment was estimated using the unit pricing method. The current cost of all other fixed assets was

estimated using the indexing method. Current cost depreciation is based on the average current cost of property and equipment during the year. Depreciation expense was computed by applying the ratio of historical cost depreciation expense to historical asset cost to the current cost of these assets.

FASB No. 33 requires that income taxes not be adjusted for the effects of general inflation and specific prices and also requires adjustment of inventories but not the related accounts payable amounts in determining cost of merchandise sold in the constant dollar calculations.

Statement of Income (Loss) from Continuing Operations Adjusted for Changing Prices

	Adjusted For		
	Historical Financial Statements	General Inflation (Constant \$)	Specific Prices (Current Cost)
At February 27, 1982 (Dollars in thousands)			
Statement of Consolidated Operations			
Sales	\$6,226,755	\$6,226,755	\$6,226,755
Cost and expenses:			
Cost of merchandise sold	4,903,227	4,946,105	4,903,227
Depreciation and amortization	67,411	95,170	152,425
Other costs	1,350,750	1,350,750	1,350,750
Total cost and expenses	6,321,388	6,392,025	6,406,402
Income (loss) before income taxes	(94,633)	(165,270)	(179,647)
Net (loss)	(101,633)	(172,270)	(186,647)
Changes in carrying values			
Gain from decline in the purchasing power of net amounts owed		49,969	49,969
Increase in current cost of inventories and property, plant and equipment			79,677
Less effect of increase in general price level			67,262
Excess of increases in specific prices over increase in the general price level			12,415

Property, Plant and Equipment—Adjusted for Changes in Specific Prices

	As Reported	As Adjusted
At February 27, 1982 (Dollars in thousands)		
Property, plant and equipment—net	\$391,677	\$709,407

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

For the Fiscal Year

(Dollars in thousands, except per share amounts—in average 1981 constant dollars)	1981	1980	1979	1978	1977
Sales	\$6,226,755	\$7,674,503	\$8,301,750	\$10,390,296	\$10,962,020
Historical cost information adjusted for general inflation:					
Net (loss)	(172,270)	(156,108)	(132,016)		
Net (loss) per common share	(4.61)	(4.91)	(5.30)		
Net assets at year end	535,700	769,895	801,602		
Historical cost information adjusted for specific prices:					
Net (loss)	(186,647)	(110,290)	(57,766)		
Net (loss) per common share	(4.99)	(3.47)	(2.32)		
Excess of increases in specific prices over increases in the general price level	12,415	52,728	(88,505)		
Net assets at year end	600,755	877,660	971,751		
Other information:					
Purchasing power gain on net amounts owed	49,969	78,480	107,145		
Cash dividends per common share	—	—	—	.07	.23
Market price per common share at year end	\$ 4.63	\$ 6.31	\$ 9.90	\$ 9.49	\$12.08
Average consumer price index	275.9	251.3	222.2	198.4	183.5

Management Overview—The effect of inflation on the food distribution industry in general has been significant over the past several years. The additional costs incurred by farmers, food processors and wholesalers are passed on to the Company. Due to the competitive nature of the retail supermarket business, the Company is not always able to pass on these costs fully to the customer. The opportunities for the Company to control inflationary costs are limited, particularly with respect to labor and energy. This trend is also compounded by the growing tendency of customers to buy less expensive items, thus spending the same total dollars on lower margin purchases.

The effect of inflation on the Company's financial results is significant as it relates to inventory, the historical cost of property, plant and equipment (including real property and equipment leased under

capital leases) and the related depreciation and amortization expense. Because property, plant and equipment are purchased over an extended period of time, ongoing replacement of existing facilities would be at a much greater cost than that reflected on the balance sheet in historical dollars. Also, depreciation and amortization expense, as reflected in the Company's primary financial statements, includes a ratable portion of those historical dollar costs of property, plant and equipment against sales which are stated in current dollars. The difference between the Statement of Income (Loss) from Continuing Operations Adjusted for Changing Prices and the primary financial statements is due to the effect of adjusting inventory balances and related cost of merchandise sold and the increase in depreciation and amortization expense to reflect average fiscal 1981 dollars and

specific prices.

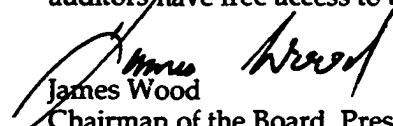
The management of the Company cautions that the data presented reflect the effects of the overall inflation rate as measured by the CPI-U and specific prices. Such data are not necessarily indicative of the impact of inflation on the Company's operations. No attempt has been made to calculate the benefit derived from potential price increases to offset the higher depreciation and amortization costs, nor does such data reflect economies, such as sales and labor productivity and more efficient use of energy, which normally accompany the investment in new productive capacity or the fact that certain square footage may not be replaced. Also, the effect of inflation on accounts payable in the constant dollar calculation is not considered. Additionally, no attempt has been made to determine the effect of inflation on the Company's operating leases.

Management's Report on Financial Statements

The consolidated financial statements of The Great Atlantic & Pacific Tea Company, Inc., have been prepared by management which is responsible for objectivity and the integrity of the information therein. The statements have been prepared in conformity with generally accepted accounting principles appropriate to our business and include, where necessary, amounts that are based on management's best judgements and estimates.

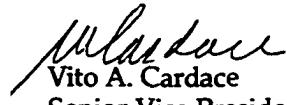
The Company maintains accounting systems and accounting controls which are designed to provide reasonable assurance that accounting records and reports are fairly presented and the assets of the Company are safeguarded. Although it is not feasible or practical to review the millions of transactions which are recorded annually, the controls established by the Company provide reasonable assurance that material errors or irregularities will be prevented or promptly detected and corrected. Individual managers are responsible for parts of the control system within their respective function, which are continually reviewed and reported on by the Company's Internal Audit Department.

Deloitte Haskins & Sells, independent certified public accountants, have been engaged to examine our financial statements. The Board of Directors has an Audit Review Committee, consisting of outside directors. The committee meets periodically with the independent certified public accountants, the internal auditors and representatives of management to discuss auditing and financial reporting matters. The independent accountants and the internal auditors have free access to the Audit Review Committee to discuss the results of their audits.



James Wood

Chairman of the Board, President
and Chief Executive Officer



Vito A. Cardace

Senior Vice President, Finance and Administration

Accountants' Report

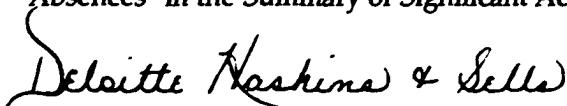
Deloitte Haskins & Sells
Certified Public Accountants

The Stockholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc.:

We have examined the consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and subsidiary companies as of February 27, 1982 and February 28, 1981 and the related statements of consolidated operations, of consolidated stockholders' equity and of changes in consolidated financial position for each of the three fiscal years in the period ended February 27, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed under the caption "Closing Facilities" in the 1981 Financial Review, the Company has provided for estimated losses and related costs which are expected to be incurred in connection with its revitalization program pursuant to which the Company has or will close or sell certain of its stores and related facilities. We have reviewed the procedures applied by the Company in its determination of such provision and have inspected the underlying documentation; while the procedures were reasonable and the documentation appropriate, the ultimate provision for the revitalization program presently cannot be determined with certainty, since it is dependent on future events.

In our opinion, subject to the effects on the consolidated financial statements as of and for the year ended February 27, 1982 of such adjustments, if any, which may have been required had the outcome of the revitalization program referred to in the preceding paragraph been known, such financial statements present fairly the financial position of the companies at February 27, 1982 and February 28, 1981 and the results of their operations and changes in their financial position for each of the three fiscal years in the period ended February 27, 1982, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change, with which we concur, in the method of accounting for compensated absences as described under the caption "Compensated Absences" in the Summary of Significant Accounting Policies.



Deloitte Haskins & Sells

DELOITTE HASKINS & SELLS
411 Hackensack Avenue
Hackensack, New Jersey 07601

May 3, 1982

Statement of Consolidated Operations

(Dollars in thousands, except per share figures)	Fiscal 1981 (52 weeks)	Fiscal 1980 (53 weeks)	Fiscal 1979 (52 weeks)
Sales	\$6,226,755	\$6,989,529	\$6,684,179
Cost of merchandise sold	4,903,227	5,512,202	5,241,050
Gross margin	1,323,528	1,477,327	1,443,129
Store operating, general and administrative expense	1,251,584	1,421,457	1,348,426
Depreciation and amortization	67,411	67,902	67,564
Income (loss) from operations	4,533	(12,032)	27,139
Interest (expense) income:			
Capital leases	(21,110)	(22,787)	(22,282)
Interest expense	(14,486)	(13,678)	(13,399)
Interest income	6,430	12,448	9,400
Interest expense—net	(29,166)	(24,017)	(26,281)
Income (loss) before income taxes, revitalization program and extraordinary credit	(24,633)	(36,049)	858
Anticipated cost of revitalization program	(200,000)	—	—
Income (loss) before income taxes and extraordinary credit	(224,633)	(36,049)	858
Provision for income taxes	(7,000)	(7,000)	(4,665)
Loss before extraordinary credit	(231,633)	(43,049)	(3,807)
Extraordinary credit	130,000	—	—
Net (loss)	\$ (101,633)	\$ (43,049)	\$ (3,807)
Per common share:			
Loss before extraordinary credit	\$ (6.19)	\$ (1.35)	\$ (.15)
Extraordinary credit	3.47	—	—
Net (loss)	\$ (2.72)	\$ (1.35)	\$ (.15)

Statement of Consolidated Stockholders' Equity

(Dollars in thousands)	Fiscal 1981 (52 weeks)	Fiscal 1980 (53 weeks)	Fiscal 1979 (52 weeks)
Common stock:			
Balance forward	\$ 37,393	\$ 24,893	\$ 24,892
Exercise of options	—	—	1
Increase due to rights offering	—	12,500	—
	\$ 37,393	\$ 37,393	\$ 24,893
Capital surplus:			
Balance forward	\$ 421,052	\$ 377,301	\$ 377,299
Exercise of options	—	1	2
Increase due to rights offering	—	43,750	—
	\$ 421,052	\$ 421,052	\$ 377,301
Retained earnings (deficit):			
Balance at beginning of year	\$ (54,659)	\$ (11,610)	\$ (4,296)
Cumulative effect of change in accounting for compensated absences	—	—	(3,507)
Balance as restated	(54,659)	(11,610)	(7,803)
Net (loss)	(101,633)	(43,049)	(3,807)
	\$ (156,292)	\$ (54,659)	\$ (11,610)

See Financial Review and Summary of Significant Accounting Policies on pages 10 through 20.

Consolidated Balance Sheet

Assets (Dollars in thousands)	February 27, 1982	February 28, 1981(a)
Current assets:		
Cash and short-term investments	\$ 55,638	\$107,688
Accounts receivable	49,066	45,355
Inventories	478,103	587,491
Properties held for development and sale	17,989	34,085
Prepaid expenses	7,331	7,431
Total current assets	608,127	782,050
Property:		
Land	11,211	11,847
Buildings	49,643	76,308
Equipment	274,144	369,640
Store fixtures and leasehold improvements	152,032	205,269
Total—at cost	487,030	663,064
Less accumulated depreciation and amortization	(202,842)	(294,527)
	284,188	368,537
Real property leased under capital leases	107,489	146,850
Property—net	391,677	515,387
Other assets (includes \$130 million prepaid pension)	141,875	11,546
	\$1,141,679	\$1,308,983
Liabilities and Stockholders' Equity (Dollars in thousands)		
Current liabilities:		
Current portion of long-term debt	\$ 1,817	\$ 1,737
Current portion of obligations under capital leases	11,162	12,851
Accounts payable	268,487	331,383
Accrued salaries, wages and benefits	66,077	77,921
Accrued taxes	26,293	37,508
Current portion of closing reserves and other accruals	58,529	60,858
Total current liabilities	432,365	522,258
Long-term debt	128,416	130,032
Obligations under capital leases	153,975	202,617
Deferred income taxes and investment tax credits	4,417	4,071
Closing reserves and other liabilities	120,353	46,219
Stockholders' equity:		
Preferred stock—no par value; authorized—3,000,000 shares; issued—none		
Common stock—\$1 par value; authorized—80,000,000 shares;		
outstanding 37,392,784 shares	37,393	37,393
Capital surplus	421,052	421,052
Retained earnings (deficit)	(156,292)	(54,659)
Total stockholders' equity	302,153	403,786
	\$1,141,679	\$1,308,983

See Financial Review and Summary of Significant Accounting Policies on pages 10 through 20.

(a) Restated in accordance with FASB Statement No. 43.

Statement of Changes in Consolidated Financial Position

(Dollars in thousands)	Fiscal 1981 (52 weeks)	Fiscal 1980 (53 weeks)(a)	Fiscal 1979 (52 weeks)(a)
Source of funds:			
From operations:			
Net (loss) before extraordinary credit	\$ (231,633)	\$ (43,049)	\$ (3,807)
Expenses (income) not requiring (providing) working capital:			
Depreciation and amortization	56,599	56,695	56,299
Amortization of real property leased under capital leases	10,812	11,207	11,265
Anticipated cost of revitalization program—net (non-current portion)	106,600	—	—
Deferred income taxes	489	2,493	1,115
Deferred investment tax credits	(143)	(412)	(792)
Working capital provided from operations before extraordinary credit	(57,276)	26,934	64,080
Extraordinary credit—pension	130,000	—	—
Extraordinary credit not providing working capital	(130,000)	—	—
Total working capital provided from operations	(57,276)	26,934	64,080
Proceeds from rights offering	—	56,250	—
Disposition of property	17,496	9,464	26,285
Transfer of property to current portion of closing reserves	49,001	—	—
Decrease in property leased under capital leases due to store closings, terminations and amendments	29,204	877	10,520
Proceeds from borrowings	14,144	1,270	4,658
Other	1,461	1,310	5,616
Total	54,030	96,105	111,159
Disposition of funds:			
Expenditures for property	68,406	56,906	67,949
Property leased under capital leases	654	15,114	9,750
Decrease in obligations under capital leases due to store closings, terminations and amendments	38,830	1,123	11,906
Obligations under capital leases	9,812	(1,540)	808
Current maturities and repayment of long-term debt	15,760	1,919	6,615
Transfer of non-current reserves to (from) current liabilities	4,598	(6,723)	6,331
Total	138,060	66,799	103,359
Increase (decrease) in working capital	(84,030)	29,306	7,800
Working capital—beginning of year	259,792	230,486	222,686
Working capital—end of year	\$ 175,762	\$ 259,792	\$ 230,486
Increase (decrease) in components of working capital:			
Cash and short-term investments	\$ (52,050)	\$ 43,751	\$(30,779)
Accounts receivable	3,711	(6,230)	3,748
Inventories	(109,388)	43,620	(654)
Properties held for development and sale	(16,096)	3,919	4,376
Prepaid expenses	(100)	933	342
	(173,923)	85,993	(22,967)
Accounts payable	(62,896)	65,763	598
Current portion of long-term debt	80	51	93
Current portion of obligations under capital leases	(1,689)	974	162
Accrued expenses	(23,059)	(3,093)	(12,178)
Current portion of closing reserves and other accruals	(2,329)	(7,008)	(19,442)
	(89,893)	56,687	(30,767)
Increase (decrease) in working capital	\$ (84,030)	\$ 29,306	\$ 7,800

See Financial Review and Summary of Significant Accounting Policies on pages 10 through 20.

(a) Restated in accordance with FASB Statement No. 43.

Operating Results

Fiscal 1981 (52 weeks)

Compared with 1980 (53 weeks)

Sales for fiscal 1981 were \$6.2 billion compared with \$7.0 billion in fiscal 1980, an 11.4% decrease. The impact of 53 weeks in fiscal 1980 vs 52 weeks in fiscal 1981 contributed approximately 1.9% to the sales decline. The inflation rate for food at home for the comparable period was 6.2%. Comparisons to last year were impacted by the store closing program announced in the latter part of 1981. Sales recorded by stores included in the Company's revitalization program amounted to \$390 million in the fourth quarter and are excluded from the statement of operations. At the end of fiscal 1981, there were 1,055 stores in operation as compared with 1,543 at the end of fiscal 1980.

Gross margin decreased \$153.8 million, or 10.4% in fiscal 1981. Gross margin as a percentage of sales was 21.3% in fiscal 1981 and 21.1% in fiscal 1980. The increase in the gross margin percentage resulted from an abatement of the competitive price wars seen in certain markets, an increase in direct promotional allowances received from suppliers, and from the elimination of low margin stores relating to the Company's closing program.

Store operating, general and administrative expense was \$1.3 billion in fiscal 1981 compared with \$1.5 billion in fiscal 1980, an 11.4% decrease resulting primarily from the reduction in the number of stores operated by the Company. Store operating general and administrative expense, as a percentage of sales, was 21.2% in fiscal 1981 and 21.3% in 1980.

The loss before income taxes, revitalization program and extraordinary credit was \$24.6 million in fiscal 1981, as compared to a loss of \$36.0 million in fiscal 1980 which included a \$9.4 million charge to cover the estimated costs of an employee severance and early retirement program. The decrease in the loss was mainly due to the closing of unprofitable operations during the fourth quarter

of 1981. During the fourth quarter of 1981, a \$200 million reserve was established for the closing of unprofitable and marginal stores, certain manufacturing facilities, and related support facilities pursuant to the Company's revitalization program. Also included in 1981 was an extraordinary credit of \$130 million, representing the future economic benefit attributable to the acquisition of annuities in conjunction with the planned termination of the Company's existing pension plan and the establishment of a new, more attractive retirement plan.

Fiscal 1980 (53 weeks)

Compared with 1979 (52 weeks)

Sales for fiscal 1980 were \$7.0 billion compared with \$6.7 billion in fiscal 1979, a 4.6% increase. Sales from continuing stores were 1.2% higher in fiscal 1980, as compared with the prior fiscal year. The remainder of the increase is due to the expansion of the PLUS Discount Foods subsidiary and the inclusion of the 53rd week of sales. The inflation rate for food at home for the period was 8.7%. At the end of fiscal 1980, there were 1,543 stores in operation as compared with 1,542 at the end of fiscal 1979.

Gross margin increased \$34.2 million, or 2.4% in fiscal 1980. Gross margin as a percentage of sales was 21.1% in fiscal 1980 and 21.6% in fiscal 1979. The decrease in the gross margin percentage is due to economic conditions and the adoption by the Company of a phased program of price reductions throughout the areas in which the Company does business. This was offset in part by higher margins from the Company's coffee roasting operations.

Store operating, general and administrative expense was \$1.5 billion in fiscal 1980 compared with \$1.4 billion in fiscal 1979, a 5.2% increase. This increase reflects the continued inflationary pressures on labor and other costs, particularly in U.S. supermarket operations as well as the provision of \$9.4 million to cover the estimated costs of an employee severance and early retirement program offset in part by

income of \$2.3 million representing the Company's share of the settlement of a class action brought against certain folding carton manufacturers. Store operating, general and administrative expense as a percentage of sales was 21.3% in fiscal 1980 and 21.2% in fiscal 1979.

The net loss in fiscal 1980 aggregated \$43.0 million, as compared with a net loss of \$3.8 million in fiscal 1979. The increase in net loss is primarily due to the increase in store operating, general and administrative expense as explained above as well as the decrease in gross margin as a percentage of sales. The net loss trend is also compounded by the growing tendency of customers to buy less expensive items, thus spending the same total dollars on lower margin purchases.

Fiscal 1979 (52 weeks)

Compared with 1978 (52 weeks)

Sales for fiscal 1979 were \$6.7 billion compared with \$7.5 billion in fiscal 1978, a 10.5% decrease. This decrease was primarily the result of a net reduction of 229 stores during the year including 184 stores which were closed as part of the Restructuring Program. Sales from continuing stores were 1.9% lower in fiscal 1979, as compared with the previous fiscal year while the inflation rate for food at home for the period was 10.6%.

Gross margin decreased \$161 million, or 10.0%, in fiscal 1979, as compared with fiscal 1978. Gross margin as a percentage of sales was 21.6% in fiscal 1979 and 21.5% in fiscal 1978. While gross margin as a percentage of sales increased .1% in fiscal 1979 compared with fiscal 1978, it decreased during the last half of this year due principally to the inability of the Company to fully pass along increased costs to customers, offset, in part, by the elimination of many lower margin stores closed in connection with the Restructuring Program.

Store operating, general and administrative expense was \$1.4 billion in fiscal 1979 compared with \$1.6 billion in fiscal 1978, a 10.4% decrease. This decrease resulted primarily from the closing of

229 stores during the year, offset, in part, by costs incurred in the start up of the Company's new subsidiary, PLUS Discount Foods Inc. Store operating, general and administrative expense as a percentage of sales was 21.2% for both fiscal 1979 and fiscal 1978.

The net loss in fiscal 1979 aggregated \$3.8 million, as compared with a net loss of \$52.2 million in fiscal 1978. The net loss in fiscal 1979 reflects continuing pressure on gross margins, as previously discussed, as well as the start-up and conversion costs in connection with the Company's new subsidiary, PLUS Discount Foods Inc. The fiscal 1978 loss includes reserves of \$40 million and \$3.9 million relating to the Company's restructuring and store closing programs.

Liquidity and Capital Resources

The Company finished the fiscal year in a liquid position with work-

ing capital at February 27, 1982 of \$175.8 million as compared with \$259.8 million and \$230.5 million at February 28, 1981 and February 23, 1980, respectively. The Company had cash and short-term investments aggregating \$55.6 million at the end of fiscal 1981 as compared with \$107.7 million and \$63.9 million at the end of fiscal 1980 and fiscal 1979, respectively. The Company has lines of credit of approximately \$90 million available from commercial banks which have not been utilized for a period of over three years. Although the bank lines were established to finance seasonal inventory peaks, all inventory requirements in fiscal 1981, 1980 and 1979 were funded out of cash flow.

During fiscal 1981, the Company financed its \$68.4 million capital expenditures through internally generated cash flow, sale and leaseback and industrial revenue bond financing. The Company was able to achieve this expenditure level despite the loss before revitalization

program and extraordinary credit of \$31.6 million.

For fiscal 1982, the Company has forecast capital expenditures of approximately \$41 million which it expects to finance primarily through internally generated funds. The Company's results of operations are expected to be improved over the 1981 level and depreciation expense should be approximately \$50 million. The Company plans to continue its program of leveraged lease financing for store fixtures and expects to continue to generate cash through the sale and leaseback of Company developed store properties.

With the announcement that an agreement, in principle, had been reached on the settlement of the litigation regarding the proposed termination of the Company's pension plan, it is reasonable to project an infusion of about \$200 million into the Company within the next twelve months. (See Subsequent Event footnote.)

Five-Year Summary of Selected Financial Data

(Dollars in thousands, except per share figures) For the Fiscal Year	1981	1980(b)(c)	1979(c)	1978(c)	1977(d)
Sales	\$6,226,755	\$ 6,989,529	\$ 6,684,179	\$ 7,469,659	\$ 7,288,577
Income (loss) before extraordinary credit	(231,633)	(43,049)	(3,807)	(52,186)	(2,938)
Total assets	1,141,679	1,308,983	1,230,522	1,281,226	1,305,967
Working capital	175,762	259,792	230,486	222,686	256,411
Current ratio	1.41	1.50	1.50	1.45	1.55
Long-term debt	128,416	130,032	130,681	132,638	134,227
Obligations under capital leases	153,975	202,617	202,200	214,914	208,304
Income (loss) per share before extraordinary credit (a)	(6.19)	(1.35)	(.15)	(2.10)	(.12)
Cash dividends per share	—	—	—	.05	.15
Weighted average shares outstanding	37,392,784	31,833,356	24,892,137	24,892,084	24,892,084
Number of stockholders	31,311	33,404	34,704	36,556	38,012
Number of employees	45,000	60,000	63,000	72,000	81,000
Number of stores at year end	1,055	1,543	1,542	1,771	1,905
Total store-area (square feet)	23,742,000	33,052,000	33,057,000	36,935,000	38,354,000

(a) Based on the weighted average number of common shares outstanding each year.

(b) 53 weeks; all other years contained 52 weeks.

(c) Restated in accordance with FASB Statement No. 43.

(d) Results of operations were restated to include a charge of \$3,507 or (.14) per share in accordance with FASB Statement No. 43.



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